

**REPORT OF THE AUDIT OF THE
UNION COUNTY
CLERK**

**For The Year Ended
December 31, 2004**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE UNION COUNTY CLERK

**For The Year Ended
December 31, 2004**

The Auditor of Public Accounts has completed the Union County Clerk's audit for the year ended December 31, 2004. Based upon the audit work performed, the financial statement presents fairly in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees increased by \$512 from the prior year, resulting in excess fees of \$37,106 as of December 31, 2004. Revenues decreased by \$70,610 from the prior year and expenditures decreased by \$71,122.

Report Comments:

- The Depository Institution Should Have Provided Sufficient Collateral To Protect Deposits
- The County Clerk's Office Lacks Adequate Segregation Of Duties

Deposits:

The County Clerk's deposits were not fully insured or collateralized by bank securities.

CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT	1
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS	3
NOTES TO FINANCIAL STATEMENT	6
COMMENTS AND RECOMMENDATIONS	11
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	15



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Frank Eiter, Union County Judge/Executive
Honorable Billy Steve Peak, Union County Clerk
Members of the Union County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the County Clerk of Union County, Kentucky, for the year ended December 31, 2004. This financial statement is the responsibility of the County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the County Clerk for the year ended December 31, 2004, in conformity with the regulatory basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated August 16, 2005 on our consideration of the County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Frank Eiter, Union County Judge/Executive
Honorable Billy Steve Peak, Union County Clerk
Members of the Union County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Depository Institution Should Have Provided Sufficient Collateral To Protect Deposits
- The County Clerk's Office Lacks Adequate Segregation Of Duties

This report is intended solely for the information and use of the County Clerk and Fiscal Court of Union County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
August 16, 2005

UNION COUNTY
 BILLY STEVE PEAK, COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2004

Revenues

State Fees For Services	\$	4,657
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Fiscal Court		3,838
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Licenses and Taxes:

Motor Vehicle-

Licenses and Transfers	\$	513,243
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Usage Tax		971,247
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Tangible Personal Property Tax		1,117,910
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Lien Fees		3,781
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Other-

Fish and Game		108
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Marriage		6,107
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Beer and Liquor		902
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Deed Transfer Tax		28,705
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Delinquent Tax	102,493	2,744,496
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Fees Collected for Services:

Recordings-

Deeds, Easements, and Contracts	\$	10,302
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Real Estate Mortgages		23,494
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Chattel Mortgages and Financing Statements		47,516
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Powers of Attorney		736
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All Other Recordings		16,526
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Charges for Other Services-

Candidate Filing Fees		1,340
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Copywork	3,548	103,462
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Other:

Refunds	\$	1,000
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Miscellaneous	297	1,297
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Interest Earned		1,084
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Total Revenues	\$	2,858,834
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The accompanying notes are an integral part of this financial statement.

UNION COUNTY
 BILLY STEVE PEAK, COUNTY CLERK
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2004
 (Continued)

Expenditures

Payments to State:

Motor Vehicle-

Licenses and Transfers	\$	430,223	
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Usage Tax		942,965	
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Tangible Personal Property Tax		368,203	
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Licenses, Taxes, and Fees-

Delinquent Tax		13,671	
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Legal Process Tax		11,215	
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Miscellaneous		2,390	\$ 1,768,667
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Payments to Fiscal Court:

Tangible Personal Property Tax	\$	87,284	
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Delinquent Tax		11,632	
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Deed Transfer Tax		27,270	
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Beer and Liquor Licenses		896	127,082
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Payments to Other Districts:

Tangible Personal Property Tax	\$	617,550	
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Delinquent Tax		51,329	668,879
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Payments to Sheriff

1,548

Payments to County Attorney

14,944

Operating Expenditures:

Personnel Services-

Deputies' Salaries	\$	134,264	
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Part-Time Salaries		2,324	
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Vacation Pay		1,420	
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Contracted Services-

Making Tax Bills		2,477	
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Materials and Supplies-

Office Supplies		24,599	
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The accompanying notes are an integral part of this financial statement.

UNION COUNTY
 BILLY STEVE PEAK, COUNTY CLERK
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2004
 (Continued)

Expenditures (Continued)

Operating Expenditures (Continued):

Other Charges-

Conventions and Travel	\$	3,027	
Postage		333	
Refunds		489	
Miscellaneous		29	168,962

Total Expenditures			\$ 2,750,082
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Net Revenues			108,752
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Less: Statutory Maximum	\$	64,953	
Expense Allowance		3,600	
Training Incentive Benefit		3,093	71,646

Excess Fees Due County for 2004			37,106
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Payment to Fiscal Court - March 7, 2005			38,181
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Refund Due County Clerk at Completion of Audit			\$ (1,075)
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The accompanying notes are an integral part of this financial statement.

UNION COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2004

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Clerk as determined by the audit. KRS 64.152 requires the County Clerk to settle excess fees with the fiscal court by March 15 each year.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting, revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive), at December 31, that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2004 services
- Reimbursements for 2004 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2004

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

UNION COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2004
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.34 percent for the first six months and 8.48 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The County Clerk entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of April 6, 2004, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$344,437 of public funds uninsured and unsecured.

The county official's deposits are categorized on the next page to give an indication of the level of risk assumed by the county official as of April 6, 2004.

UNION COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2004
 (Continued)

Note 3. Deposits (Continued)

	<u>Bank Balance</u>
FDIC insured	\$ 100,000
Collateralized with securities held by the county official's agent in the county official's name	56,627
Uncollateralized and uninsured	<u>344,437</u>
Total	<u><u>\$ 0</u></u>

Note 4. Grant

During 2003, the County Clerk received a local records microfilming grant from the Kentucky Department for Libraries and Archives. The balance of the grant fund was \$11,033 as of January 1, 2004. Grant fund receipts and expenditures during the year were \$19 and \$10,889 respectively. The unexpended grant balance was \$163 as of December 31, 2004. The grant was officially closed as of February 1, 2005

COMMENTS AND RECOMMENDATIONS

UNION COUNTY
BILLY STEVE PEAK, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2004

STATE LAWS AND REGULATIONS:

The Depository Institution Should Have Provided Sufficient Collateral To Protect Deposits

On April 6, 2004, \$344,437 of the County Clerk's deposits of public funds in depository institutions were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the County Clerk require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

County Clerk's Response: I feel like the depository institution should have monitored this more closely. I have made notes to check on this during our peak times.

INTERNAL CONTROL - REPORTABLE CONDITION AND MATERIAL WEAKNESS:

The County Clerk's Office Lacks Adequate Segregation Of Duties

The County Clerk's office has a lack of segregation of duties. Due to the entity's diversity of official operations, small size and budget restrictions the official has limited options for establishing an adequate segregation of duties. We are recommending the following compensating controls be implemented to offset this internal control weakness.

- The Clerk should periodically compare a daily bank deposit to the daily checkout sheet and then compare the daily checkout sheet to the receipts ledger. Any differences should be reconciled.
- The Clerk should compare the quarterly financial report to receipts and disbursements ledgers for accuracy. The Clerk should also compare the salaries listed on the quarterly report to the individual earning records. Any differences should be reconciled.
- The Clerk should periodically compare invoices to payments.
- The Clerk should periodically compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled.

County Clerk's Response: I will initial all deposits made through this office and compare daily checkout sheets to the receipt ledger and the quarterly financial report to the disbursements ledger and initial these.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Frank Eiter, Union County Judge/Executive
Honorable Billy Steve Peak, Union County Clerk
Members of the Union County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Union County Clerk for the year ended December 31, 2004, and have issued our report thereon dated August 16, 2005. The County Clerk's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Union County Clerk's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. Reportable conditions are described in the accompanying comments and recommendations.

- The County Clerk's Office Lacks Adequate Segregation Of Duties

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that. However, we believe the reportable condition described above is a material weakness.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Union County Clerk's financial statement for the year ended December 31, 2004, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under Government Auditing Standards and is described in the accompanying comments and recommendations.

- The Depository Institution Should Have Provided Sufficient Collateral To Protect Deposits

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
August 16, 2005

